

Request for City Council Action

Date: April 8, 2003

To: Council Member Lisa Goodman, Community Development Committee,

Prepared by Charles Curtis, Financial Analyst, Phone 612-673-5069

Approved by Lee Sheehy, MCDA Executive Director
Chuck Lutz, MCDA Deputy Executive Director _____

Subject: A Public Hearing and Request for Preliminary and Final Approval of up to \$7,000,000 in 501(c)(3) non-profit Tax-exempt Revenue Bonds for City of Minneapolis Series 2003 for University of Minnesota Physicians Group with a Joint Powers Agreement with the City of Wyoming, MN.

Previous Directives: None

Ward: 2 516 Delaware Street SE
 424 Harvard Street

Neighborhood Group Notification: University of Minnesota Area has been notified.

Consistency with *Building a City That Works*: The Project is consistent with Goal 4 of preserving and enhancing the urban institutes and amenities that define Minneapolis.

Comprehensive Plan Compliance: The Project complies with the policies of the Minneapolis Plan.

Zoning Code Compliance: Existing facilities are in compliance.

Impact on the MCDA Budget:

☐ No financial impact
☐ Action requires an appropriation increase to the MCDA Budget
☐ Action provides increased revenue for appropriation increase
☐ Action requires use of contingency or reserves
☒ Other financial impact (Explain): The issuance of tax-exempt revenue bonds will generate annual administrative fees that are used to support the small business assistance programs of the City.

Living Wage/Business Subsidy: The project is a 501 (c)(3) conduit financing that is not subject to Living Wage / Business subsidy.

Job Linkage: Does not apply.

Affirmative Action Compliance: University of Minnesota Physicians Group will be in compliance prior to bond closing.

RECOMMENDATION:

City Council Recommendation: The Executive Director recommends that the City Council adopt the attached Resolution, a summary of which will be published, following a public hearing held on April 8, 2003, notice of which was published in Finance and Commerce on March 22, 2003, giving Preliminary and Final Approval to the issuance of up to \$7,000,000 in 501 (c)(3) non-profit Tax-exempt Revenue Bonds at an interest rate not to exceed 5.0% for City of Minneapolis Series 2003 for University of Minnesota Physicians Group with a Joint Powers Agreement with the City of Wyoming, MN.

Background/Supporting Information

PROJECT LOCATION & DESCRIPTION:

516 Delaware Street SE
424 Harvard Street

Ward 2

University of Minnesota Physicians Group
Executive Offices
2550 University Avenue West
Suite 401 South
St Paul, MN 55114

The applicant is a Minnesota non-profit corporation and is an integrated faculty group practice corporation affiliated with the University of Minnesota Medical School. The University of Minnesota Physicians Group consists of various medical clinics joined by membership in the group practice corporation. The medical clinics provide services in many areas of health care.

Security for the bonds will consist of the following:

- Borrower's full faith and credit
- First security interest in equipment
- cash and marketable securities equal to the loan balance

The bonds will be offered to a limited number of accredited investors with a minimum level of investment of \$100,000.

TYPE OF FINANCING:

Sources:

Bond Proceeds	\$7,000,000
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Uses:

Radiology-Leasehold Improvements 516 Delaware Street SE	\$2,192,000
Oncology-Leasehold Improvements 424 Harvard St	\$2,404,000
Therapeutic Radiology-Equipment and Leasehold Improvements Wyoming, MN	\$2,404,000
Total	\$7,000,000

<u>PRESENT EMPLOYMENT:</u>	735
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<u>NEW EMPLOYMENT:</u>	49
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ASSESSOR'S ESTIMATED
ANNUAL TAX INCREASE:

Tax-exempt Organization
Equipment and Leasehold Improvements

AFFIRMATIVE ACTION COMPLIANCE:

Compliance to be completed prior to
closing

Job Component

Minimum standard of one (1) job per
1,000 square feet of building area.

University of Minnesota Physicians
Group: Equipment Financing and
Leasehold Improvements Only.

Property Improvements

No more than 25% of the bond proceeds
may be used for land and acquisition. If
purchasing an existing building, an
amount equal to at least 15% of the
acquisition cost must be spent on
rehabilitation expenditures.

University of Minnesota Physicians
Group: NA

Development Standards

Compliance with the Land Use Plan
of the City's Comprehensive Plan.

University of Minnesota Physicians
Group: In compliance.

Equipment Financing

Limited to companies that create or preserve a significant number of jobs, and the equipment financed must be sufficiently secured. No more than 10% of the bond proceeds may be used to finance movable equipment not constituting a fixture.

University of Minnesot Physicians Group:
Preserving 735 Jobs. Creating 49 jobs.
In compliance.

Restaurant/Bank

IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an MCDA Redevelopment Area. No more than 25% of the bond proceeds can be used to finance retail food and beverage establishments, automobile dealerships or recreation or entertainment facilities.

University of Minnesota Physicians Group: N.A.

Tax-exempt Institution

Refinancing is permitted when new jobs are created or when a significant number of jobs is preserved; any interest cost savings must directly reduce patient costs.

University of Minnesota Physicians Group: NA.

IRB CAP:

The project is not subject to the volume cap, in that the project is exempt from income tax under Internal Revenue Code Section 501(c)(3) for its exempt purposes and is classified thereunder as a non-profit organization.

BOND COUNSEL:

Kennedy & Graven, Chartered

UNDERWRITER: Wells Fargo Brokerages Services, LLC

COUNCIL MEMBER INFORMED: Ward 2

MINNESOTA DEPARTMENT OF
TRADE AND ECONOMIC
DEVELOPMENT APPROVAL: To be submitted. Closing will not occur
until approval is received.

NOTE: Copies of the following bond documents are on file with the Minneapolis
Community Development Agency and can be reviewed by contacting
Virginia Parent, Board Coordinator (612-673-5136).

1. Loan Agreement
2. Bond Purchase Agreement

Authorizing the issuance and sale of, and providing the form, terms, pledge of revenues, and findings, covenants, and directions relating to the Revenue Note (University of Minnesota Physicians Project), Series 2003, to be issued by the City of Minneapolis under Minnesota Statutes, Sections 469.152-469.165, to finance improvements to, and the acquisition and installation of medical equipment for, facilities of University of Minnesota Physicians located in the City of Minneapolis and the City of Wyoming, Minnesota.

Resolved by the City Council of the City of Minneapolis:

Section 1. Background

1.01. Statutory Authorization. The City of Minneapolis (the “City”) is authorized by Minnesota Statutes, Sections 469.152 through 469.165, as amended (the “Act”), to issue revenue obligations to finance, in whole or in part, the cost of the acquisition, construction, reconstruction, improvement, betterment, or extension of a “project,” defined in the Act as any properties, real or personal, used or useful in connection with a revenue producing enterprise, whether or not operated for profit, engaged in providing health care services, including hospitals, nursing homes, and related medical facilities to be owned by a contracting party (as defined in the Act).

1.02. The Series 2003 Note. University of Minnesota Physicians, a Minnesota nonprofit corporation (the “Corporation”), has requested that the City issue its Revenue Note (University of Minnesota Physicians Project), Series 2003 (the “Note”), in the original aggregate principal amount not to exceed \$7,000,000, and loan the proceeds derived from the sale of the Note to the Corporation pursuant to the terms of a Loan Agreement, to be dated on or after April 1, 2003 (the “Loan Agreement”), between the City and the Corporation. The proceeds of the loan will be applied to the acquisition, construction, and equipping of the Project (as hereinafter defined). The Note is proposed to be purchased by Wells Fargo Brokerage Services, LLC (the “Registered Owner”).

1.03. The Corporation and the Project. The Corporation is proposing to finance the costs of following with the proceeds of the Note: (i) leasehold improvements to the Corporation’s Ambulatory Imaging Center located in the Phillips-Wangensteen Building at 516 Delaware Street Southeast in the City; (ii) leasehold improvements to the Corporation’s Masonic Cancer Center located at 424 Harvard Street in the City; (iii) the acquisition of equipment to be located at Fairview University Medical Center, 420 Delaware Street Southeast in the City or for the Corporation’s Therapeutic Radiation Oncology Center located in the Fairview Lakes Regional Medical Office Building I at 5200 Fairview Boulevard in the City of Wyoming, Minnesota (collectively, the “Project”). The Project will be owned and operated by the Corporation. The Corporation is exempt from federal income taxation under

Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as a result of the application of Section 501(c)(3) of the Code.

1.04. Loan Repayments. The loan repayments to be made by the Corporation under the Loan Agreement will be fixed so as to produce revenue sufficient to pay the principal of, premium, if any, and interest on the Note when due. The City will assign its rights to the basic payments and certain other rights under the Loan Agreement to the Registered Owner pursuant to the terms of an Assignment of Loan Agreement, dated as of April 1, 2003 (the “Assignment”), between the City, the Corporation and the Registered Owner.

1.05. Documents. Forms of the following documents have been submitted to the City Council and are now on file with the City Clerk: (i) the Note; (ii) the Loan Agreement; and (iii) the Assignment of Loan Agreement.

1.06. Public Hearing. A notice of public hearing (the “Public Notice”) was published in *Finance and Commerce*, the official newspaper and a newspaper of general circulation in the City, with respect to: (i) the required public hearing under Section 147(f) of the Internal Revenue Code of 1986, as amended; (ii) the required hearing under Section 469.154, subdivision 4, of the Act; and (iii) approval of the issuance of the Note. The Public Notice was published at least fifteen (15) days before a regularly-scheduled meeting of the Community Development Committee of the City Council of the City conducted on April 8, 2003. On such date, the Community Development Committee of the City Council conducted a public hearing at which a reasonable opportunity was provided for interested individuals to express their views, both orally and in writing, on (i) the proposed issuance of the Note, and (ii) the location and nature of the Project.

Section 2. Issuance of the Note

2.01. Findings. The City Council hereby finds, determines, and declares that:

(a) The issuance and sale of the Note, the execution and delivery by the City of the Loan Agreement and the Assignment of Loan Agreement, and the performance of all covenants and agreements of the City contained in the Loan Agreement and the Assignment of Loan Agreement are undertaken pursuant to the Act.

(b) The Project furthers the purposes stated in Section 469.152 of the Act and constitutes a “project,” as defined in Section 469.153, subdivision 2(b) and (d), of the Act.

(c) The loan repayments to be made by the Corporation under the Loan Agreement are fixed to produce revenue sufficient to provide for the prompt payment of principal of, premium, if any, and interest on the Note issued under this resolution when due, and the Loan Agreement also provides that the Corporation is required to pay all expenses of the operation and maintenance of the Project, including, but without limitation, adequate insurance thereon and insurance against all liability for injury to persons or property arising from the operation thereof, and all lawfully imposed taxes and special assessments levied upon or with respect to the Project and payable during the term of the Loan Agreement.

(d) As provided in the Loan Agreement, the Note shall not be payable from nor charged upon any funds other than the revenue pledged to their payment, nor shall the City be subject to any liability thereon, except as otherwise provided in this paragraph. No holder of the Note shall ever have the right to compel any exercise by the City of its taxing powers to pay any of the Note or the interest or premium thereon, or to enforce payment thereof against any property of the City except the interests of the City in the Loan Agreement and the revenues and assets thereunder, which will be assigned to the Lender under the Assignment of Loan Agreement. The Note shall not constitute a charge, lien, or encumbrance, legal or equitable, upon any property of the City, except the interests of the City in the Loan Agreement, and the revenues and assets thereunder, which will be assigned to the Lender under the Assignment of Loan Agreement. The Note shall recite that the Note is issued pursuant to the Act, and that the Note, including interest and premium, if any, thereon, are payable solely from the revenues and assets pledged to the payment thereof, and the Note shall not constitute a debt of the City within the meaning of any constitutional or statutory limitations

2.02. Issuance and Sale of the Note. The City hereby authorizes the issuance of the Note, in the principal amount, in the form, and with the terms set forth in the form of the Note now on file with the City. The aggregate principal amount of the Note, the interest rate of the Note, the terms for adjustment of the interest rate on the Note, the date of the documents referenced in this resolution and the Note, and the terms of redemption of the Note may be established or modified with the approval of the City. The execution and delivery of the Note shall be conclusive evidence that the City has approved such terms as subsequently established or modified. The offer of the Registered Owner to purchase the Note at the price of par plus accrued interest, if any, to the date of delivery at the interest rate or rates specified in the Note, is hereby accepted. The Mayor, City Clerk and Finance Officer are authorized and directed to prepare and execute the Note as prescribed in the Loan Agreement and the Note shall be delivered to the Registered Owner. The Finance Officer is hereby authorized to execute and deliver any agreements with any depository institution, including any representation letter or amendment to any existing representation letter, to provide for the registration of the Note in book-entry form.

2.03. Approval of Documents. The Loan Agreement and the Assignment of Loan Agreement are hereby approved in substantially the forms on file with the City on the date hereof. The terms of the Loan Agreement and the Assignment of Loan Agreement, may be established or modified with the approval of the City. The execution and delivery of such documents shall be conclusive evidence that the City has approved such terms as subsequently established or modified. The Mayor, City Clerk, and Finance Officer are authorized and directed to execute and deliver the Loan Agreement and the Assignment of Loan Agreement. Copies of all of the documents necessary to the transaction herein described shall be delivered, filed, and recorded as provided herein and in the Loan Agreement.

2.04. Certifications of the City. The Mayor, City Clerk, Finance Officer, and other officers, employees, and agents of the City are hereby authorized and directed to prepare and furnish to bond counsel and the Registered Owner certified copies of all proceedings and records of the City relating to the issuance of the Note including a certification of this resolution. Such officers, employees, and agents are hereby authorized to execute and deliver, on behalf of the City, all other certificates, instruments, and other written documents that may be requested by bond counsel, the Registered Owner, or other persons or entities in conjunction with the issuance of the Note. Without imposing any limitation on the scope of the preceding sentence, such officers, employees, and agents are

specifically authorized to execute and deliver one or more financing statements, an arbitrage and rebate certificate, a receipt for the proceeds derived from the sale of the Note, an order as to the application of the proceeds of the Note, a general certificate of the City, and an Information Return for Tax-Exempt Private Activity Bond Issues, Form 8038 (Rev. January 2002).

2.05. Agreement with Host City. A portion of the Project is proposed to be located in the City of Wyoming, Minnesota. If Kennedy & Graven, Chartered, as bond counsel, determines that it is necessary under the terms of the Act, or Minnesota Statutes, Section 471.656, as amended, for the City and the City of Wyoming, Minnesota to enter into a joint powers agreement to provide for the issuance of the Note by the City, the City is hereby authorized to enter into such a joint powers agreement in such form and containing such terms as are acceptable to the City Finance Officer.

2.06. Security for the Note. The City hereby authorizes the Corporation to provide such security for payment of its obligations under the Loan Agreement and for payment of the Note as is agreed upon by the Corporation and the Registered Owner and the City hereby approves the execution and delivery of such security.

2.07. DTED Application. As required by the terms of Section 469.154 of the Act, the employees, officers, and agents of the City are hereby authorized and directed to submit an application to the Minnesota Department of Trade and Economic Development for approval of the Project and the issuance of the Note.

Section 3. Miscellaneous

3.01. Agreements Binding. All agreements, covenants, and obligations of the City contained in this resolution and in the above-referenced documents shall be deemed to be the agreements, covenants, and obligations of the City to the full extent authorized or permitted by law, and all such agreements, covenants, and obligations shall be binding on the City and enforceable in accordance with their terms. No agreement, covenant, or obligation contained in this resolution or in the above-referenced documents shall be deemed to be an agreement, covenant, or obligation of any member of the City Council, or of any officer, employee, or agent of the City in that person's individual capacity. Neither the members of the City Council, nor any officer executing the Note, shall be liable personally on the Note or be subject to any personal liability or accountability by reason of the issuance of the Note.

3.02. Rights Conferred. Nothing in this resolution or in the above-referenced documents is intended or shall be construed to confer upon any person (other than as provided in the Note, the Loan Agreement, the Assignment of Loan Agreement, and the other agreements, instruments, and documents hereby approved) any right, remedy, or claim, legal or equitable, under and by reason of this resolution or any provision of this resolution.

3.03. Validity. If for any reason the Mayor, Finance Officer, City Clerk, or any other officers, employees, or agents of the City authorized to execute certificates, instruments, or other written documents on behalf of the City shall for any reason cease to be an officer, employee, or agent of the City after the execution by such person of any certificate, instrument, or other written document, such fact shall not affect the validity or enforceability of such certificate, instrument, or other written

document. If for any reason the Mayor, Finance Officer, City Clerk, or any other officers, employees, or agents of the City authorized to execute certificates, instruments, or other written documents on behalf of the City shall be unavailable to execute such certificates, instruments, or other written documents for any reason, such certificates, instruments, or other written documents may be executed by a deputy or assistant to such officer, or by such other officer of the City as in the opinion of the City Attorney is authorized to sign such document.

3.04. Reimbursement Resolution. The United States Department of the Treasury has promulgated Treasury Regulations, Section 1.150-2 (the "Regulation"), governing the use of the proceeds of tax-exempt bonds, all or a portion of which are to be used to reimburse the City or a borrower from the City for project expenditures paid prior to the date of issuance of such bonds. The Regulation requires that the City adopt a statement of official intent to reimburse an original expenditure not later than sixty (60) days after payment of the original expenditure. The Regulation also generally requires that the bonds be issued and the reimbursement allocation made from the proceeds of the bonds within eighteen (18) months after the later of: (i) the date the expenditure is paid; or (ii) the date the project is placed in service or abandoned, but in no event more than three (3) years after the date the expenditure is paid. The Regulation generally permits reimbursement of capital expenditures and costs of issuance of the bonds. The City expects that a portion of the costs of the Project will be paid by the Corporation prior to the date of issuance of the Note. The City reasonably expects to reimburse the Corporation for such expenditures from the proceeds of the Note after the date of issuance of the Note. All reimbursed expenditures shall be capital expenditures, a cost of issuance of the Note, or other expenditures eligible for reimbursement under Section 1.150-2(d)(3) of the Regulation and also qualifying expenditures under the Act.

3.05 “The bonds are hereby designated “Program Bonds” and are determined to be within the “Economic Development Program” and the “Program,” all as defined in Resolution 88R-021 of the City adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted December 12, 1997.”

3.06. Effective Date. This resolution shall take effect and be in force from and after its approval and publication. Immediate publication of this resolution is hereby authorized.

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